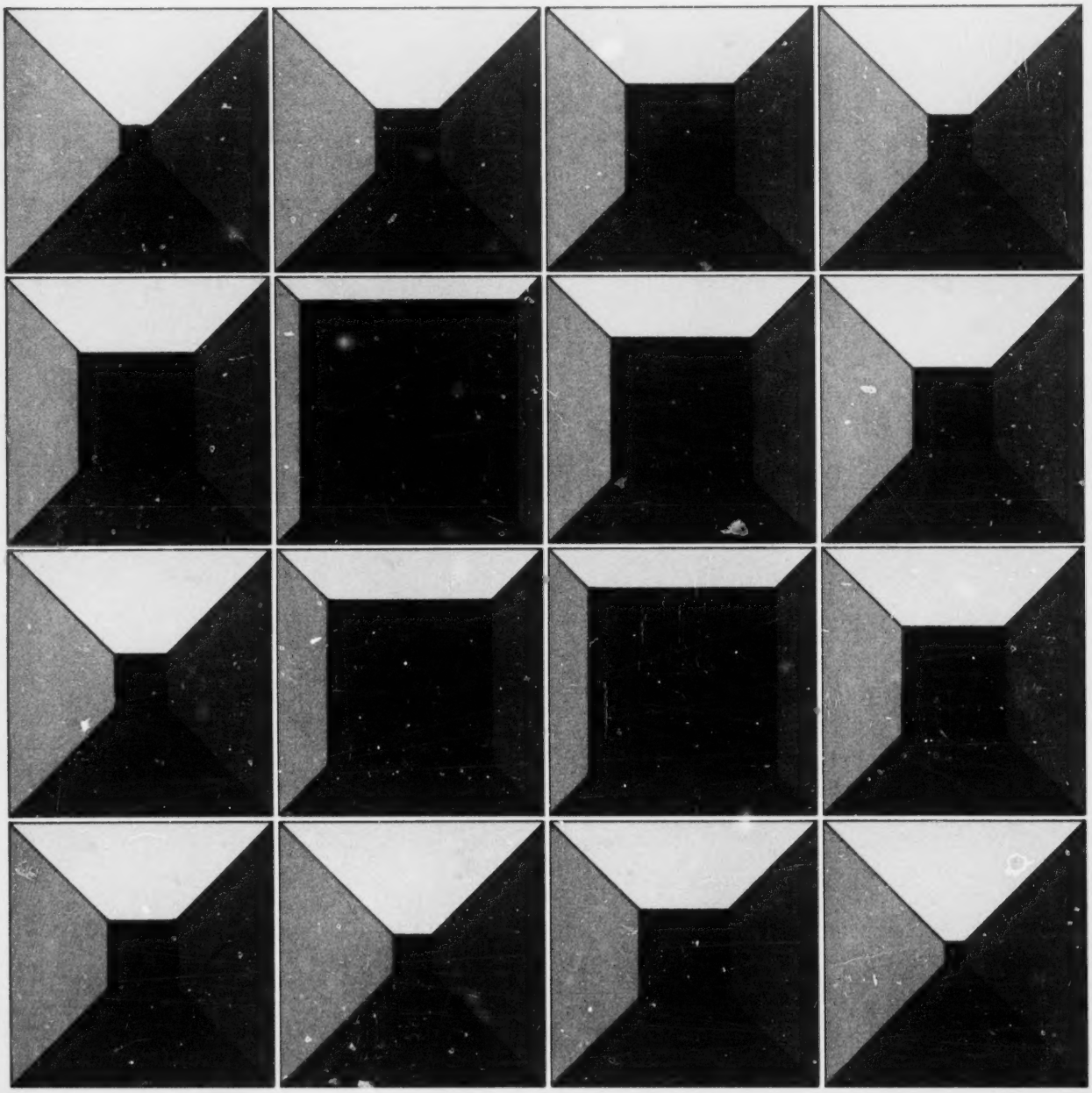
Interactions Among Programs Providing Benefits to Individuals: Secondary Effects on the Budget

A CBO Study
May 1982

Congress of the United States
Congressional Budget Office



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INTERACTIONS AMONG PROGRAMS PROVIDING BENEFITS TO INDIVIDUALS: SECONDARY EFFECTS ON THE BUDGET

The Congress of the United States
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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables of this report may not add to totals because of rounding.

PREFACE

Reductions in programs that provide benefits to individuals often produce large offsetting increases and decreases in spending by other programs. These offsets have important, differential effects on federal and state budgets as well as on the individuals affected. This report, prepared at the request of the Senate Budget Committee, estimates these interaction effects for two general options to achieve spending reductions: an across-the-board benefit reduction and an eligibility restriction. In keeping with the Congressional Budget Office's (CBO) mandate to provide objective and impartial analysis, this study contains no recommendations.

Reuben Snipper, of CBO's Human Resources and Community Development Division, prepared the paper under the supervision of Paul B. Ginsburg and Nancy M. Gordon. The author wishes to acknowledge the technical and critical contributions of many people, particularly Roger Hitchner, Charles Seagrave, Thomas Buchberger, Paul Cullinan, Daniel Koretz, Ben Steffen, Howard Levine, Patricia Ruggles, and Bruce Vavrichek. Patricia H. Johnston edited the manuscript. Reba Williams typed the many drafts and prepared the paper for publication.

Alice M. Rivlin
Director

May 1982

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SUMMARY

Last year's budget decisions reduced substantially federal spending in fiscal year 1982 for programs that provide benefits to individuals. For fiscal year 1983, the Administration has proposed more large cuts for such programs. A reduction in one of these programs often results in increases or decreases in benefits provided by other programs, making the net impact on the budget, and on the affected individuals, significantly different from the initial effect of the cut program.

PROGRAMS THAT PROVIDE BENEFITS TO INDIVIDUALS

Programs that provide benefits to individuals are conventionally divided into social insurance or welfare categories. Social insurance programs furnish benefits to persons with a particular characteristic--aged, unemployed, or disabled, for example--who usually have contributed to the program's support, often through earmarked taxes and with employer contributions. Generally, neither eligibility nor benefits depend on the income or assets of the beneficiary. Social insurance programs included in this study are Social Security, unemployment insurance, and Medicare.

Welfare programs, in contrast, take account of the income and assets of recipients in determining eligibility and benefit amounts, but do not condition eligibility on prior contributions. For this reason, they are referred to as "means-tested" programs. The welfare programs analyzed here--Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), food stamps, school lunch, housing assistance, and Medicaid--provide cash and in-kind assistance to those meeting specific definitions of need.

PROGRAM INTERACTIONS

Program interactions occur because many people participate in more than one program and because benefits in some programs depend on benefits received from others. The extent to which individuals participate in more than one program depends on the eligibility rules, benefit formulas, and program regulations for the particular programs involved. In a few cases, participation in one

program makes individuals automatically eligible for benefits in another--Medicaid eligibility is given to all AFDC and most SSI recipients, for instance. More generally, several programs share the same general eligibility requirement--low income--because they were designed to meet different needs of the poor. For example, the food stamps, AFDC, SSI, and Medicaid programs all have income limits, although the last three have additional requirements as well. Consequently, many poor families receive benefits from more than one of these programs.

Because benefit formulas and program regulations in welfare programs count cash payments from other programs as income, reductions in the benefit levels of one program often result in partially offsetting increases in benefits paid by other programs. For example, AFDC cash assistance is counted as income in figuring food stamp benefits. Thus, for the 75 percent of AFDC families who participate in the Food Stamp Program, roughly one-third of a decline in AFDC benefits would be offset by increased food stamps. On the other hand, when eligibility for two programs is linked, as in AFDC and Medicaid, loss of benefits from one can mean loss of benefits from the other.

This report estimates the net effect on government spending and household benefits of reductions in three major programs--AFDC, Social Security, and unemployment insurance (UI). These programs assist primarily low-income, single-parent families, elderly persons, and unemployed workers--the major groups served by programs providing benefits to individuals. The study examines the implications of benefit changes in these three programs for six other programs--Supplemental Security Income, food stamps, school lunch, housing assistance, Medicare, and Medicaid.

EFFECTS OF PROGRAM REDUCTIONS ON FEDERAL SPENDING

In order to illustrate program interactions, this report analyzes two options designed to achieve a hypothetical 20 percent reduction in spending in AFDC, Social Security, and unemployment insurance:[1]

- An across-the-board benefit reduction, and
- A restriction in eligibility.

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1. This large reduction was used so that the smaller interactions would appear in the estimates.

Over half the reduction in federal spending resulting from an across-the-board benefit cut in AFDC would be offset by increased spending for other programs (see Summary Table 1). In particular, a 20 percent across-the-board reduction in AFDC benefits would produce federal budgetary savings of about 9 percent, if offsets by other programs were included. This large interaction would occur because of extensive participation by AFDC recipients in other federal programs and because of the way costs are shared among federal, state, and local governments. The federal government would pay all the increased costs in food stamps and housing assistance programs but reap only about half the overall savings from cutting AFDC; state and local governments would receive the other half.

SUMMARY TABLE 1. INTERACTION EFFECTS ON THE FEDERAL BUDGET OF AN ILLUSTRATIVE 20 PERCENT REDUCTION IN SPENDING IN THREE PROGRAMS IN FISCAL YEAR 1983, BY TYPE OF REDUCTION

Cut Program by Type of Reduction	Offset to Each Dollar Cut from Program (In cents)	Net Cut as Percent of Previous Program Outlays, Including Offsets
Benefit Reduction		
AFDC[a]	55	9
Social Security[b]	7	19
Unemployment Insurance	3	19
Eligibility Restriction		
AFDC[a]	5	19
Social Security[b]	1	20[c]
Unemployment Insurance	3	19

SOURCE: CBO estimates.

a. Aid to Families with Dependent Children.
b. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.
c. The offsets are small enough that the net cut rounds to 20 percent.

In contrast, an across-the-board reduction in Social Security or unemployment insurance benefits would not be offset significantly by increased costs in other programs. A 20 percent cut would generate net federal savings of about 19 percent in Social Security and unemployment insurance, when increases in other programs are taken into account. Unlike recipients of AFDC, Social Security and UI beneficiaries are generally not eligible for means-tested programs.

The eligibility restrictions used in this report to reduce spending in AFDC and Social Security would produce smaller federal offsetting increases in other programs than would be the case for the across-the-board benefit reduction. For example, each dollar cut in AFDC by the eligibility restriction would be offset by 5 percent, as compared to 55 percent for the across-the-board benefit reduction. Similarly in Social Security, the eligibility restriction would be offset by only 1 percent, as compared to 7 percent for the benefit reduction. The smaller degree of offsetting changes would occur for two reasons. First, fewer people who would be affected by the eligibility restriction participate in other programs. Second, loss of Medicaid or Medicare benefits would produce additional savings, since eligibility for the health-care programs is linked to eligibility for AFDC and Social Security, but not to the level of benefits.

For unemployment insurance, both the eligibility restriction and the across-the-board benefit reduction would increase federal spending in other programs by the same amount--about 3 percent of the UI cut. In each case, the effects on other programs would be similar.

EFFECTS OF PROGRAM REDUCTIONS ON STATES AND INDIVIDUALS

Changes in state and local government spending resulting from either benefit reductions or eligibility restrictions could be quite different from the federal pattern, because of the way program costs are shared among different levels of government. For instance, state and local governments would derive their full share of a benefit reduction in AFDC, but would pay none of the offsetting increases in food stamps or housing assistance (see Summary Table 2). More striking, for a 20 percent eligibility restriction in AFDC, the net decline in state spending would be 23 percent, on average, because of additional savings associated with the loss of Medicaid eligibility for some recipients. In contrast, cutting Social Security would not reduce state spending

SUMMARY TABLE 2. INTERACTION EFFECTS ON STATE AND LOCAL BUDGETS OF AN ILLUSTRATIVE 20 PERCENT REDUCTION IN SPENDING IN THREE PROGRAMS IN FISCAL YEAR 1983, BY TYPE OF REDUCTION

Cut Program by Type of Reduction	Offset to Each Dollar Cut from Program (In cents)	Net Cut as Percent of Previous Program Outlays, Including Offsets
Benefit Reduction		
AFDC[a]	0	20
Social Security[b]	0	c
Unemployment Insurance	0	0
Eligibility Restriction		
AFDC[a]	-14	23
Social Security[b]	1	c
Unemployment Insurance	0	0

SOURCE: CBO estimates.

a. Aid to Families with Dependent Children.

b. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

c. State spending would increase, not decrease, because of additional spending for SSI and Medicaid. Since states pay none of the Social Security benefits, a percentage cannot be calculated.

because states do not share in financing Social Security; instead, state spending for SSI and Medicaid would increase by about 1 percent of the reduction in Social Security outlays. For unemployment insurance, states would neither benefit from reduced spending nor pay any offsetting increases in other programs.

Effects of program reductions on individual families would depend on the size of the change and the exact pattern of program

participation. For the three-quarters of AFDC recipients who also participate in food stamps, about one-third of their loss of AFDC benefits would be offset. One-fifth of AFDC families who receive some type of housing assistance would pay less rent if their AFDC benefits were reduced or ended; therefore, they would be partially cushioned from the full effects of an AFDC cutback. Overall, because of participation in programs that would partially offset an AFDC cut, less than 20 percent of AFDC households would experience the full reduction in benefits. In contrast, far fewer beneficiaries of Social Security and unemployment insurance participate in programs that would offset reductions, so more than 80 percent of them would face the full drop in benefits from changes in those programs.

CHAPTER I. INTRODUCTION

About half of the federal budget is spent on programs providing benefits to individuals. Legislation enacted in 1981 cut over $13 billion in fiscal year 1982 outlays for these programs from the $366 billion projected under the Congressional Budget Office's (CBO) current policy assumptions. The President's budget for fiscal year 1983 proposes additional reductions of a similar size for many of these same programs.

Some of the people affected by these budget cuts participate in more than one benefit program. For those who do, a cutback in benefits in one program may increase or decrease benefits in another. If enough people participate in more than one program, the net impact on the federal budget could be significantly different from the initial reduction in outlays for the affected program. These offsetting increases or decreases in spending by other programs are called program interactions or secondary budget effects.

Program interactions not only affect the net budgetary impact of program changes, but they also alter the effects of the cuts on the individual households receiving benefits. In some cases, benefits from other programs automatically increase, thus partly reducing the impact. In other cases, however, loss of eligibility for one program leads to loss of eligibility in others, thereby magnifying the effects.

Individuals whose benefits are reduced are likely to alter their behavior in ways that have further effects on the budget. For example, their likelihood of working or the amount they work might change, and they might spend less. These changes would, in turn, affect the aggregate level of economic activity and, ultimately, tax receipts and spending in other programs. While these "feedback effects" all affect the budget, they are not discussed in this report, which focuses only on the direct effects and interactions of program changes.[1]

1. For a discussion of feedback effects in the economy and on the budget, see Congressional Budget Office, How Changes in Fiscal Policy Affect the Budget: The Feedback Issue (May 1982).

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PLAN OF THE PAPER

This report analyzes the interactions among major programs that provide benefits to individuals. (See Appendix A for a description of these programs.) Chapter II explains how and why interactions occur and describes the major ones. Chapter III provides estimates of the interactions produced by cutting three programs--Aid to Families with Dependent Children (AFDC), Social Security, and unemployment insurance. In each of these programs two kinds of cuts are considered: an across-the-board benefit reduction and a restriction in eligibility. Effects on federal and state budgets are discussed, as well as effects on individual households. Finally, several current proposals to reduce spending in AFDC and Social Security are examined.

CHAPTER II. HOW THE PROGRAMS INTERACT

Of all households participating in major federal programs that provide benefits to individuals, over half receive assistance from two or more programs. Since benefits in one program often depend partially on benefits in another, changes in one program create the potential for large secondary effects on the budget.

This chapter discusses what these secondary budget effects are, explains how and why they occur, and provides estimates of the multiple program participation that chiefly determines the magnitudes of the interactions. The analysis focuses on cutbacks in three major programs--Aid to Families with Dependent Children (AFDC), Social Security, and unemployment insurance (UI)--that interact with six other programs--food stamps, Supplemental Security Income (SSI), housing assistance, school lunch, Medicaid, and Medicare. The people participating in these programs--single-parent families, the elderly, and the unemployed--represent the major groups served by the entire income security system.[1]

MECHANISMS OF PROGRAM INTERACTIONS

For interactions to occur, beneficiaries of one program must participate in another[2] and the benefits in the second program must be affected by either participation in or the level of benefits from the first. The essential element beyond multiple participation is that benefits in one program depend on benefits in another.

Beneficiaries generally participate in more than one program because several federal programs are designed to serve different

1. Other vulnerable groups not included in this study are the disabled, the sick, and veterans, but even some of them are served by the nine programs covered in this report.

2. For convenience throughout this paper, the analyses of program participation are discussed in terms of current participants. The analyses, in fact, pertain both to these households and to similar households not currently participating in the programs.

needs of people in similar circumstances. For example, food stamps and AFDC both assist low-income families, resulting in a high degree of overlapping participation. In a few cases, program rules in one program automatically qualify participants for eligibility in another. Households eligible for AFDC are categorically eligible for Medicaid, for instance. Moreover, households may participate in more than one program because individual members qualify for different programs or because the entire household is eligible for more than one program.

Multiple participation, by itself, does not necessarily cause interaction, because programs only interact when benefits in one program affect benefits in another. In general, means-tested programs are more likely to interact than social insurance programs, since benefits from programs such as SSI and food stamps are affected by the amount of other income received, whereas benefits from social insurance programs such as Social Security and Medicare are not.

Furthermore, program interactions are directional in that means-tested programs generally are affected by nonmeans-tested programs, but the reverse is not true. For example, some households receive benefits from both Social Security and AFDC. Changing AFDC benefits would not affect Social Security benefits, but changing Social Security benefits would affect AFDC benefits since these changes would affect the level of income on which AFDC benefits are based.

The specific ways in which benefits in one program affect benefits in another are determined by eligibility rules, benefit formulas, and program regulations. These program characteristics both influence the extent of participation in more than one program and, with a change in one program, determine the size of the increases or decreases in benefits in other programs. Although changes in one program may result in different behavior by recipients (such as work efforts) and thus affect spending in other programs, such behavioral changes only are described, but not analyzed, in this paper.

Eligibility Rules

Eligibility rules are the most basic program feature determining interactions among programs, because multiple participation can occur only if permitted by eligibility rules. In a few programs, eligibility for one program automatically confers

eligibility for another. As mentioned earlier, most households receiving AFDC or SSI are categorically eligible for Medicaid. In other cases in which the primary eligibility criterion is poverty, low-income families qualify for benefits from more than one program. But, since cash assistance counts as income for means-tested programs, its receipt from one program can reduce or eliminate benefits from another.

Benefit Formulas

After the eligibility rules for more than one program are satisfied, program formulas for computing benefits are the next most important factor in determining the size of the interactions. Benefit formulas, and more specifically benefit reduction rates, determine the amount by which recipients' basic benefits are reduced as income increases. For example, in the Food Stamp Program, the fiscal year 1982 basic benefit is $233 per month for a four-person household with no income. This basic benefit is reduced 30 cents for each dollar of household income, after certain deductions have been allowed. When household income includes benefit payments from other programs, these benefits influence the amount of food stamps that a household can receive.

Benefit reduction rates are partially additive for participants in more than one program, because each program applies them to additional income. For example, in both the AFDC and Food Stamp Programs, an additional dollar earned will reduce benefits. The net benefit reduction rate is generally less than the total of the two individual rates, however, because the Food Stamp Program uses the reduced AFDC benefit to calculate the amount of food stamps beneficiaries can receive, and lower AFDC payments mean higher food stamp allotments.

Program Regulations

Program regulations, in combination with eligibility rules and benefit reduction rates, significantly influence program interactions. The two most important are the definitions of income and of the beneficiary, or "filing" unit.

Countable Income. "Countable" income is the income measure used to determine program eligibility and benefits. Rules on countable income state which benefits from other programs are included as income and which expenses for work, shelter, child care,

and medical services can be deducted to obtain net countable income. If, for example, one program redefines countable income so that its benefits are reduced, benefits in other programs may increase.

Filing Unit. The filing unit is the person or group that is administratively eligible to apply for benefits. For example, filing units are the family, or subfamilies within a larger family, for AFDC; all those living together for housing assistance programs; and the individual worker for unemployment insurance. Changes in the definition of the filing unit of a cash assistance program may restrict eligibility for participants, thereby reducing the income used to set benefits in other programs.

Other Regulations. A host of other program rules and regulations either directly affect benefit levels for participants of more than one program or influence the amount of multiple participation that occurs. These rules differ considerably in various programs; among the most important rules are those defining the accounting period,[3] those for reporting income, and those for work and work registration. These definitions and regulations may increase or decrease multiple participation rates.

Changes in Recipient Behavior

A change in one program may result in changes in recipients' behavior that lead to interactions among programs. These behavioral responses include changes in rates of participation in more than one program, work effort, savings, and living arrangements (such as divorce or splitting up of households). For example, since benefit reduction rates are partially additive, participants in more than one program may have strong disincentives to work. Some evidence indicates that benefit reduction rates of 70 to 80 percent and benefits at the poverty level may result in an average of a 10 percent decline in work effort, but the results are not conclusive.[4] Because of the limited knowledge about the magnitude

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3. The accounting period is the period of time over which a filing unit's countable income is measured to determine eligibility and benefits.

4. See Lester C. Thurow, "Equity, Efficiency, Social Justice, and Redistribution," in Organization for Economic Co-opera- (Continued)

of these effects, they are not included in the estimates presented in this paper.

MULTIPLE PARTICIPATION IN INTERACTING PROGRAMS

While the first part of this chapter discussed how eligibility rules, benefit formulas, and program regulations determine the potential amount of program interaction, this section discusses the extent to which households actually participate in more than one program.[5]

Interacting Programs for AFDC Recipients

Four programs--Medicaid,[6] food stamps, free or reduced-price school lunches,[7] and housing assistance--specifically use AFDC benefit amounts or eligibility requirements to determine their assistance levels. Therefore, changes in either AFDC benefit levels or eligibility limits could affect outlays in these four programs.

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4. (Continued)
tion and Development (OECD), The Welfare State in Crisis (Paris, OECD: 1981); and Robert A. Moffitt and Kenneth D. Kehrer, "The Effect of Tax and Transfer Programs on Labor Supply: The Evidence from the Income Maintenance Experiments," in Ronald Ehrenberg, ed., Research in Labor Economics (Greenwich, Conn.: JAI Press, 1981). The most common effect is a reduction in the likelihood of working, rather than fewer hours worked by those who are employed.

5. This report uses the Census Bureau definition of households: they are limited to the civilian, noninstitutionalized population.

6. Some needy persons who receive Medicaid benefits, for example, those institutionalized for medical reasons and low-income elderly in nursing homes, are not represented in the data bases used in this paper, so they are not included in the estimates presented.

7. Because of limited data on participation in other child nutrition programs, only participation in the free or reduced-price lunch program of the National School Lunch Program is analyzed in this paper.

Enough AFDC families also receive benefits from these programs so that program interactions potentially could have large effects on the federal budget (see Table 1). The other programs examined in this paper have little potential for interaction with AFDC.

TABLE 1. PERCENT OF HOUSEHOLDS RECEIVING BENEFITS FROM AFDC[a] THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH AFDC

Programs that Interact with AFDC	Percent of AFDC Households Receiving Benefits from Other Programs[b]
Medicaid	100[c]
Food Stamps	75
Free or Reduced-Price Lunch[d]	55
Housing Assistance Programs[e]	19

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data.

a. Aid to Families with Dependent Children.

b. Percentages cannot be added but must be considered separately.

c. All AFDC recipients are covered by Medicaid, but not all actually receive medical benefits.

d. One or more children in the household regularly eat a free or reduced-price school lunch subsidized by the National School Lunch Program.

e. Household lives in a housing unit owned by a public agency or pays reduced rent subsidized through existing housing programs of the Housing Act of 1937 (P.L. 75-412), as amended.

Of the four programs that interact with AFDC, Medicaid interacts through an eligibility linkage, while food stamps, school lunch, and housing assistance programs are means-tested. They adjust their benefits on the basis of the amount of AFDC benefits received.

Medicaid. By federal law, households eligible for AFDC are automatically eligible for Medicaid. The amount of AFDC benefits received does not affect the amount of Medicaid benefits. This kind of categorical eligibility suggests that families who gain or lose eligibility for AFDC would also gain or lose Medicaid benefits. In many states, however, even if these families did not receive AFDC benefits, they could be deemed "medically needy" if they had large medical expenses.[8] In these cases, they would continue to receive Medicaid benefits, although in some states fewer services would be provided.

Food Stamp Program. About three-quarters of AFDC households also apply for and receive food stamps. Although virtually every AFDC family is eligible for food stamps, about one-quarter do not apply for them, for unknown reasons. For the 75 percent of AFDC households that do, the level of AFDC benefits affects the level of food stamp benefits received--the higher the AFDC payment, the lower the amount of food stamps received.

For the individual households participating in both AFDC and food stamp programs, any reduction in AFDC benefits would be offset about 32 percent by increased food stamps. The exact percentage depends on the income and shelter deductions of the particular household.

Free or Reduced-Price School Lunch Program. Although over half (55 percent) of AFDC households have children receiving a free or reduced-price lunch at school, almost all these households have incomes well below 130 percent of poverty--the cut-off for free school lunches--so changes in AFDC benefits would not change the free lunch eligibility status of most AFDC households. Therefore, changes in AFDC would not produce significant interactions with the school lunch program.

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8. In general, state programs for the medically needy give Medicaid coverage to people who meet all categorical requirements for Medicaid eligibility and whose income, after deducting medical expenses, is less than the state's medically needy income standard. This is usually between 100 and 133 percent of the state's AFDC payment standard.

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Housing Assistance Programs. One-fifth of AFDC households either live in public housing or receive rent subsidies. For these households, changes in AFDC benefits would affect the rent they pay because it is based on income. If AFDC benefits go down, so would the rent. Generally, the rent would decline by 25 to 30 percent of any reduction in AFDC benefits, depending on the rent charged by the housing assistance program during that year. This would partially reduce the impact of an AFDC cut for households receiving housing assistance. Because of the way a few states account for housing expenses in AFDC payments, a reduction in total AFDC benefits may not decrease the rent paid by housing assistance beneficiaries in those states.

Interacting Programs for Social Security Recipients

Five programs discussed in this study potentially could interact with Social Security:[9] Medicare, Medicaid, SSI, food stamps, and housing assistance (see Table 2).[10] These programs can be affected by eligibility or benefit changes in Social Security and provide benefits to enough Social Security recipients to have the potential for significant effects on the federal budget.

Medicare. About two-thirds of Social Security recipients are covered by Medicare. The services provided by Medicare do not depend on the amount of Social Security benefits, so no program interactions would occur for benefit changes in Social Security.

Medicaid. The 15 percent of Social Security recipients who are covered by Medicaid are eligible through programs for the medically needy or through the categorical eligibility of most SSI recipients. Consequently, interactions of Medicaid and Social Security can occur in two ways. First, a reduction in Social Security benefits could lower a household's income enough to qualify it for a medically needy program and thus Medicaid coverage. Second, a reduction in Social Security could be enough to qualify the household for SSI and Medicaid.

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9. In this report, Social Security refers to both Old Age, Survivor, and Disability Insurance (OASDI) and Railroad Retirement programs. Because of data limitations, disability insurance recipients are included with Social Security.

10. Veterans' pension programs would also interact with Social Security, but the available data do not allow those interactions to be estimated here.

TABLE 2. PERCENT OF HOUSEHOLDS RECEIVING BENEFITS FROM SOCIAL SECURITY[a] THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH SOCIAL SECURITY

Programs that Interact with Social Security and Patterns of Benefits	Percent of Social Security Households Receiving Benefits from Other Programs[b]
Medicare	83
Medicaid	15
Supplemental Security Income (SSI)	9
Food Stamps	
Social Security and food stamps only or with programs other than SSI and AFDC[c]	3
Social Security, food stamps, either SSI or AFDC, and possibly other programs	5
Total, food stamps	8
Housing Assistance Programs[d]	
Social Security and housing assistance only or with programs other than SSI and AFDC[c]	4
Social Security, housing assistance, either SSI or AFDC, and possibly other programs	1
Total, housing assistance	5

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

b. Percentages cannot be added, but must be considered separately.

c. With this pattern of program participation, if the household also received SSI or AFDC benefits, these would offset virtually all changes in Social Security benefits.

d. Household lives in public housing or pays reduced rent subsidized by the existing housing programs of the Housing Act of 1937, as amended.

Supplemental Security Income (SSI). Most low-income Social Security recipients who meet the asset test ($1,500 for a single person; $2,250 for a couple) are eligible for SSI payments. About 9 percent of Social Security recipients apply for and receive these benefits. Roughly half of SSI beneficiaries, however, do not qualify for Social Security. Because the SSI program has a dollar-for-dollar offset with Social Security, interactions could be large.

Food Stamp Program. About 8 percent of Social Security recipients also apply for and receive food stamps, although perhaps 12 percent are eligible. For the 5 percent of the Social Security households that receive food stamps and either SSI or AFDC, virtually all changes in Social Security benefits would be offset entirely by increases from the cash programs.[11] Thus, for this subgroup, policy changes in Social Security would lead to no net change in cash income, so food stamp benefits would also remain unchanged. In contrast, for the 3 percent of Social Security households that receive food stamps but not SSI or AFDC, increased food stamps would offset about 28 percent of any change in Social Security benefits. For this subgroup, therefore, the food stamp program does interact with Social Security.

Housing Assistance Programs. About 5 percent of Social Security recipient households benefit from housing assistance programs. But only the 4 percent of Social Security households that receive housing assistance and no SSI or AFDC benefits would cause interactions with the housing programs as a result of a change in Social Security. For these families, lower Social Security benefits would lead to rent decreases of 25 to 30 percent of the reduction in benefits, depending on the rent charged for housing assistance in that year. The other 1 percent of Social Security households receiving housing assistance also receive SSI or AFDC, programs that would offset changes in Social Security benefits. For these households, no housing program offsets would occur.

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11. Although AFDC interacts with Social Security, that interaction is so small that it is omitted from this report. Less than 2 percent of Social Security households also participate in AFDC.

Interacting Programs for Unemployment Insurance Recipients

Two programs have the potential for major interactions with unemployment insurance: food stamps and school lunch programs (see Table 3).

TABLE 3. PERCENT OF HOUSEHOLDS RECEIVING UNEMPLOYMENT INSURANCE THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH UNEMPLOYMENT INSURANCE

Programs that Interact with Unemployment Insurance and Patterns of Benefits	Percent of Unemployment Insurance Households Receiving Benefits from Other Programs[a]
Food Stamps	
Unemployment Insurance and food stamps only or with programs other than SSI and AFDC	9
Unemployment Insurance, food stamps, either SSI or AFDC, and possibly other programs	1-3
Total, food stamps	10-12
Free or Reduced-Price School Lunch[b]	10

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data.

a. Percentages cannot be added, but must be considered separately.

b. One or more children in the household regularly eat a free or reduced-price school lunch subsidized by the National School Lunch Program.

Food Stamp Program. Although 10 to 12 percent of unemployment insurance (UI) households also receive food stamps, only about 9 percent of UI households would have a change in unemployment benefits offset by a change in the amount of their food

stamps. These households do not participate in AFDC or SSI, so the full UI benefit cut would be included in the recalculation of food stamps. The remaining 1 to 3 percent of UI households participate in food stamps but also receive cash benefits from AFDC or SSI, so there would be no change in total cash incomes and their food stamp benefits would not change.

Free or Reduced-Price School Lunch Program. About one-tenth of the households receiving unemployment insurance include children receiving free or reduced-price school lunches. Changes in the amount of UI benefits would affect the school lunch price category only for those households near the income cut-off points--130 percent of the poverty guidelines for free lunches, and 185 percent for reduced-price lunches. Consequently, changes in unemployment insurance would have only a small interaction with the school lunch program. Furthermore, the price category of the school lunch program is usually determined only at the start of the school year. Because spells of unemployment are relatively short, only a small portion of families that receive UI at some time during the year would receive it at the same time as they apply for the school lunch program.

CHAPTER III. EFFECTS OF PROGRAM CHANGES ON GOVERNMENT SPENDING AND HOUSEHOLD BENEFITS

This chapter discusses the budgetary effects of program interactions resulting from two general options for reducing outlays:

- An across-the-board benefit reduction, and
- A general eligibility restriction.

In each of the three programs--AFDC, Social Security, and unemployment insurance (UI)--the two hypothetical options are designed to achieve a 20 percent reduction in expenditures in that program. Although these two options do not correspond exactly to any changes currently under consideration by the Congress, they illustrate the direction and magnitude of effects for similar alternatives.[1] The chapter concludes with a brief discussion of current proposals to reduce spending for AFDC and Social Security which are illustrative of the options presented in this paper.

The analysis shows that the offsetting increases in spending by other programs could reduce the initial savings substantially in some cases and hardly at all in others. Furthermore, the savings and offsets vary considerably between the federal government on the one hand and state and local governments on the other. In some cases, the states would obtain most of the benefits derived from program cutbacks. In other cases, the federal government would receive most of the savings, and the states would actually have to increase their spending over what it would have been without the cut. Finally, it is important to note that interactions that reduced the total federal and state savings would also cushion the impact of the cut on affected households.

The estimates given in this chapter are expressed as percentages because in that form they are less dependent on particular

1. A large reduction was chosen to allow the smaller interactions to show up in the analysis. In some programs, cuts of this magnitude are outside the range of options that have been considered by the Congress.

baseline years and can be converted to dollar amounts when necessary.[2] As discussed in Appendix B, the estimates would not vary much for later years, although they could vary substantially for program changes different from those used in this report.[3]

BENEFIT REDUCTION

The first option, a uniform across-the-board benefit reduction of 20 percent, would affect every recipient's benefits by the same percentage. Such a reduction could be accomplished either in one step or over time by reducing cost-of-living adjustments.[4]

This kind of benefit cut in AFDC, Social Security, or unemployment insurance would interact with means-tested programs but would not affect nonmeans-tested programs. Moreover, such a benefit cut would not cause significant interactions with programs that use categorical eligibility for determining receipt of benefits, such as Medicaid or Medicare.

Aid to Families with Dependent Children (AFDC)

Of the three main programs analyzed, a 20 percent across-the-board reduction in AFDC benefits would produce the largest

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2. To convert the percentages to dollars, apply the percent to the appropriate current policy baseline. For example, a 10 percent net reduction in federal AFDC spending for fiscal year 1983 translates to $0.83 billion because the CBO's current policy baseline for benefit costs in AFDC is $8.29 billion. State and local government spending for AFDC benefits is projected to be $7.04 billion for a total of $15.33 billion overall. Social Security and Railroad Retirement benefits, which are entirely federal, are projected to be $163.3 billion; UI benefits are projected at $24.95 billion.

3. Appendix B explains the methods used to derive the estimates in this paper and presents some cautions in their interpretation.

4. Reducing cost-of-living adjustments is not quite the same as an across-the-board benefit reduction, however. Program features such as minimum benefit amounts and caps on deductions would make the adjustment less uniform than an across-the-board reduction.

offsetting increases in spending for other programs. This implies that increased benefits in other programs would cushion a benefit cut for most AFDC families.

Effects on Government Spending. Interactions with other programs would reduce substantially the savings from an across-the-board cut in AFDC. Instead of a 20 percent decrease in outlays, the net impact on combined federal, state, and local spending is estimated to be a much smaller 14 percent reduction (see Table 4). Moreover, the effects on federal and state budgets would vary considerably.

Specifically, offsetting increases by the food stamp and housing assistance programs would total about 30 percent of each dollar cut in total AFDC spending. Food stamps would offset about 24 percent of each dollar cut in AFDC benefits.[5] For housing assistance programs, lower tenant incomes would reduce the amount of rent they pay and increase outlays by 6 percent of the reduction in AFDC.

In contrast, costs for Medicaid and school lunch programs would not be affected. Although all AFDC recipients are eligible for Medicaid, no interaction would occur because Medicaid benefits are not affected by the level of AFDC payments. Similarly, AFDC households have such low incomes that their children already qualify for free lunches, so no offset by the lunch program would occur from an AFDC benefit reduction.

Because of the way costs are shared among federal, state, and local governments for the AFDC, food stamp, and housing assistance programs, state and local governments would get the full 20 percent reduction in outlays while federal outlays would decrease much less--only about 9 percent. In other terms, 55 percent of each dollar cut from federal AFDC spending would be offset by increases in federal costs for other programs. Since the federal government pays the full cost of food stamp benefits and housing assistance, states and localities would receive the full 20 percent reduction in their portion of AFDC costs. The federal share of benefit costs varies by state and ranges from 50 percent to about 77 percent. Nationally, the federal share is about 54 percent, the states about 40 percent, and localities about 6 percent.

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5. Using different methods, the Department of Health and Human Services (HHS) estimated that food stamp offsets for several of the Administration's proposals submitted during 1981 would be similar to that reported here--about 20 percent.

TABLE 4. ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN AFDC[a] BENEFITS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in AFDC (In cents)	Net Cut as Percent of Previous AFDC Outlays, Including Offsets
Medicaid	0	0	20
Food Stamps	6	24	15
Free or Reduced-Price Lunch[b]	0	0	20
Housing Assistance Programs[c]	2	6	19
Overall Effects, All Levels of Government[d]		30	14
Effect on federal budget		55	9
Effect on state and local budgets		0[e]	20

SOURCE: CBO estimates.

a. Aid to Families with Dependent Children.

b. National School Lunch Program providing free or reduced-price school lunch.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. Since the federal government pays for food stamps and housing assistance, increased outlays for these programs would not affect state and local budgets.

For the individual interacting programs, outlays would increase by about 6 percent for food stamps and by 2 percent for housing assistance as a result of a 20 percent benefit cut in AFDC. These increases would appear in their respective accounts in the federal budget.

Effects on Individual Households. Although the interactions at the program level described above would have corresponding effects at the household level, they would be manifested quite differently. For the typical AFDC household, only the Food Stamp Program would significantly offset the benefit decline. For the three-quarters of AFDC households that also receive food stamps, each dollar decline in AFDC benefits would be offset by about 32 cents, on average, in increased food stamps. The exact offset for each household would depend on net income and shelter expenses.

Only the one-fifth of AFDC households that live in public housing or pay reduced rent subsidized by housing assistance programs would be partially cushioned from the effects of an AFDC benefit cut through a decline in rent paid. With rent payments proportional to income, the combined effect of the AFDC cut and the resulting rent decrease would be that income, after deducting rent, would decline less for these households than for those not receiving housing assistance, whose income including rent would drop the full 20 percent.

About one-quarter of AFDC families do not receive either food stamps or housing assistance and, therefore, would not be cushioned from the effects of the benefit cut. Although they could apply for food stamps--and thereby reduce the decline in their incomes--housing assistance, in many cases, would not be available to them because of its limited supply.

Social Security

Because a smaller proportion of households receiving Social Security participate in other programs, reductions in Social Security would produce smaller offsetting increases in other programs than would reductions in AFDC. Given the large size of Social Security outlays, however, small offsets could mean large dollar amounts.

Effects on Government Spending. From an across-the-board reduction in Social Security benefits of 20 percent, interactions with other programs would reduce the combined federal and state savings slightly--to about 18 percent of previous Social Security outlays (see Table 5).

TABLE 5. ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN SOCIAL SECURITY[a] BENEFITS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Social Security (In cents)	Net Cut as Percent of Previous Social Security Outlays, Including Offsets
Medicare	0	0	20
Medicaid	0	0	20
Supplemental Security Income (SSI)	20	6	19
Food Stamps	2	1	20[b]
Housing Assistance Programs[c]	3	1	20[b]
Overall Effects, All Levels of Government[d]		8	18
Effect on federal budget		7	19
Effect on state and local budgets		e	e

SOURCE: CBO estimates.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. State spending would increase, not decrease. State SSI benefit costs would rise by about 0.3 percent of the amount of Social Security outlays saved, but states would not receive any of the savings in Social Security costs.

The estimated overall offset of 8 percent reflects interactions by SSI, food stamps, and housing assistance programs. Increased federal and state SSI benefits would offset about 6 cents of each dollar cut from Social Security spending, while food stamps and housing assistance programs would each offset about 1 percent. Although many Social Security recipients are covered by Medicare and Medicaid, no interactions would occur because benefits in these programs do not depend on the amount of Social Security received.

Because of federal/state cost sharing--the federal government pays all the costs of Social Security and most of the costs of programs that interact with it--the net reduction in federal spending is estimated to be 19 percent, an offset of 7 cents for each dollar cut from Social Security. The federal government would pay all the increased costs of food stamps and housing assistance and 94 percent of the increased costs of SSI.

States, on the other hand, would get none of the savings from reduced Social Security, but would have to increase spending for SSI by roughly 0.3 cents per dollar cut from Social Security.[6] This contrasts with the AFDC example in which states would receive their share of the AFDC cut, but would pay none of the increased costs in other programs.

As a result of the Social Security benefit reduction of 20 percent, the outlays of each interacting program are estimated to

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6. Federal/state cost sharing in SSI is unlike other programs in that SSI recipients who receive Social Security and both federal and state SSI payments would have the decline in Social Security benefits offset dollar-for-dollar by increases in the federal portion of SSI. For these SSI recipients, their state supplement would not change. (For SSI recipients receiving only federal benefits, they too would have the decline in Social Security benefits completely offset.) Only those SSI recipients who receive a state supplemental SSI payment but no federal benefit would have their state supplement increased dollar-for-dollar to offset the decline in their Social Security benefits. These latter beneficiaries (12 percent of SSI recipients) receive about 6 percent of total--federal and state--SSI outlays.

increase about 20 percent for SSI,[7] about 2 percent for food stamps, and roughly 3 percent for housing assistance programs. These increases would appear in the accounts of these programs in the federal budget. Because states pay part of the costs of SSI, their SSI budget accounts would increase about 20 percent.

Effects on Individual Households. Unlike AFDC households, far fewer Social Security households--16 percent--participate in government programs that would offset benefit cuts. Consequently, about 84 percent of Social Security households would experience the full 20 percent cut in benefits with no increase in other benefits to reduce its impact. Most of them have assets and total incomes high enough to render them ineligible for means-tested programs.

About 9 percent of Social Security households also receive SSI, which would increase dollar-for-dollar to offset completely the Social Security benefit cut. Their total cash incomes would not change. Those who are eligible for programs such as SSI but not currently participating also could have their benefit cuts completely offset if they applied for SSI benefits. This study, however, assumes no change in participation rates for SSI.

Three percent of Social Security households receive food stamps, but not SSI; they would find, on average, that 28 percent of their benefit reduction would be offset by increased food stamps. Similarly, about 4 percent of Social Security households receive housing assistance, but no means-tested cash benefits. For them, rent payments would decline 25 to 30 cents for each dollar cut in Social Security. Very few Social Security households participate in other benefit combinations.

Unemployment Insurance

Unemployment insurance (UI) benefits could be cut uniformly by reducing the rate at which earnings are replaced. Generally, the replacement rate is intended to be 50 percent of prior earnings, up to a state maximum benefit. If the federal government required that earnings be replaced at 80 percent of the current rate, that would lower spending about 20 percent. Because few

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7. The percentage increase for SSI is so large because 60 to 65 percent of SSI households also receive Social Security benefits and would be affected by the Social Security cut.

households receiving UI participate in other federal programs providing benefits to individuals, interactions would be small.

Effects on Government Spending. Offsetting increases in other programs would reduce the net savings from a 20 percent across-the-board benefit cut in unemployment insurance to about 19 percent (see Table 6). All of the savings and offsets from the benefit cut would appear in the federal budget. The offsets would principally come from increased food stamps benefits.[8] Outlays for food stamps would increase 1 percent; offsetting increases in the budgets of school lunch and housing assistance programs would be negligible.

Effects on Individual Households. Because households receiving UI have low rates of participation in other programs, few would receive offsetting benefit increases. Among the 6 to 9 percent of households who also receive food stamps, but no means-tested cash benefits, each dollar decline in UI would be offset by an average of 32 cents. All other UI households would experience the full 20 percent cut in benefits.

ELIGIBILITY REDUCTION

The second hypothetical option to achieve a 20 percent reduction in outlays would be to restrict eligibility so as to end benefits for some recipients entirely while leaving those of others unchanged. This could be accomplished in several ways. Examples for the three major programs discussed in this paper are:

- In AFDC, lower the income limit for eligibility from its current level of 150 percent of the state needs standard.

- In Social Security, raise the retirement age for early and full benefit entitlement from 62 and 65 to 68 and 70, respectively.

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8. Although the balances of each state in the Unemployment Trust Fund would increase as a result of the cut, the increases are not available for other state programs because, by federal statute, the money is limited to paying UI benefits only. The increases in the Unemployment Trust Fund would appear in the unified federal budget and would lead to reduced federal outlays.

- o In unemployment insurance, increase the waiting period before receiving benefits to three weeks or require more hours worked or earnings in the base period for eligibility.

TABLE 6. ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN UNEMPLOYMENT INSURANCE IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Unemployment Insurance (In cents)	Net Cut as Percent of Previous Unemployment Insurance Outlays, Including Offsets
Food Stamps	1	3	19
Free or Reduced-Price Lunch[a]	0	0	20
Overall Effects, All Levels of Government[b]		3	19
Effect on federal budget		3	19
Effect on state and local budgets		0	0

SOURCE: CBO estimates.

a. National School Lunch Program providing free or reduced-price school lunch.

b. The effects on different levels of government are not additive, but must be considered separately.

Restricted eligibility would cause interactions with both means-tested programs and programs that do not have income requirements. From the perspective of a means-tested program like food stamps, the loss of eligibility for AFDC, Social Security, or

unemployment insurance would have the same effect as any other change in cash income. For programs with categorical eligibility for recipients of the cut program, the effect of restricted eligibility would be to eliminate the same recipients from both programs. For example, because AFDC beneficiaries are categorically eligible for Medicaid, ending eligibility for some AFDC households would have automatic effects on their Medicaid benefits.[9] Eliminating recipients from both programs would produce additional savings over those achieved by cutting AFDC alone. Similarly for Social Security and Medicare, restricting eligibility for Social Security could restrict eligibility for Medicare, depending on the legislation enacted.

Aid to Families with Dependent Children (AFDC)

The two major differences between a restriction in AFDC eligibility and a reduction in AFDC benefits are: recipients would lose Medicaid benefits in the former case but not the latter, and fewer of those that would be eliminated in the former case participate in more than one program.

Effects on Government Spending. As a result of interactions with Medicaid, food stamps, and housing assistance programs, the net percent decrease in combined federal, state, and local spending from an eligibility restriction in AFDC is estimated to be about 22 percent (see Table 7). The additional savings beyond the 20 percent cut from AFDC arise because the reductions in Medicaid expenditures are estimated to be larger than the increases in spending for food stamps and housing assistance programs. Such additional savings would be about 9 cents for each dollar cut from total AFDC spending.

Because of the way costs for these programs are shared among federal, state, and local governments, the impact on their respective budgets would be quite different, however. With the offsets included, federal spending would decline by 19 percent of previous federal AFDC outlays--compared to 9 percent for a 20 percent across-the-board benefit reduction. The net effect is different because some of the households eliminated from AFDC would also

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9. In states without a medically needy program, recipients losing AFDC would also lose Medicaid. Even in some states with a medically needy program, loss of AFDC would lead to reduced coverage for some Medicaid services.

TABLE 7. ESTIMATED BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN AFDC[a] OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in AFDC (In cents)	Net Cut as Percent of Previous AFDC Outlays, Including Offsets
Medicaid	-2	-30	26
Food Stamps	5	20	16
Free or Reduced-Price Lunch[b]	0	0	20[c]
Housing Assistance Programs[d]	e	1	20[c]
Overall Effects, All Levels of Government[f]		-9	22
Effect on federal budget		5	19
Effect on state and local budgets		-14	23

SOURCE: CBO estimates.

a. Aid to Families with Dependent Children.

b. National School Lunch Program providing free or reduced-price school lunch.

c. The offsets are small enough that the net cut rounds to 20 percent.

d. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

e. Less than 0.5 percent.

f. The effects on different levels of government are not additive, but must be computed separately.

lose Medicaid benefits, leading to additional federal savings, while spending for the food stamp and housing assistance programs would increase, but not as much as with the benefit cut. For the federal government, the net offset for each federal dollar cut would amount to about 5 percent for the eligibility restriction in AFDC, compared to over 50 percent for the benefit reduction.

On the other hand, because state outlays would decline not only for AFDC but also for Medicaid, the net reduction in state spending would be 23 percent of previous state AFDC outlays instead of 20 percent. As in the case of the benefit cut, the states would pay none of the offsetting increases in food stamps and housing assistance programs.

As a result of an eligibility restriction that would reduce total AFDC spending by 20 percent, the accounts in the federal budget of individual interacting programs would change. Medicaid outlays would decline roughly 5 percent, food stamp outlays would increase about 5 percent, and housing assistance outlays would increase less than 0.5 percent.

Effects on Individuals. The most important effect for those households made ineligible for AFDC might be the loss of Medicaid coverage. If they live in a state without a medically needy program, each household would lose coverage worth roughly $1,200 in fiscal year 1983. In states with a medically needy program, affected AFDC households with high medical expenses probably would still qualify for Medicaid coverage. Those with low medical expenses would generally have to pay for them out of their other income. Other programs, such as food stamps and housing assistance, would cushion the impact of an eligibility restriction in the same manner as the benefit reduction discussed previously.

Social Security

Changing eligibility rules for Social Security to achieve a 20 percent reduction in expenditures is estimated to produce much smaller interaction effects than was the case in AFDC. Interactions would reduce the net savings only slightly from 20 to 19 percent. The largest interactions would be with Medicare, which would produce additional savings, and SSI, which would produce additional spending (see Table 8). Because of the reduction in Medicare spending, the net federal savings--almost 20 percent--would be larger than the 18 percent that would occur if benefits were cut across-the-board by 20 percent.

TABLE 8. BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN SOCIAL SECURITY[a] OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Social Security (In cents)	Net Cut as Percent of Previous Social Security Outlays, Including Offsets
Medicare	-4	-7	21
Medicaid	1	1	20[b]
Supplemental Security Income (SSI)	20	6	19
Food Stamps	2	1	20[b]
Housing Assistance Programs[c]	3	1	20[b]
Overall Effects, All Levels of Government[d]		2	19
Effect on federal budget		1	20[b]
Effect on state and local budgets		1	e

SOURCE: CBO estimates.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. State spending would increase for Medicaid and SSI, but states would not obtain any of the savings in Social Security.

Effects on Government Spending. The federal government would benefit from all of the reduced Social Security and Medicare spending but would also pay much of the offsetting increases in other programs. The states would not benefit from either lower Social Security or lower Medicare spending, but would pay a small portion of increased SSI and Medicaid benefit costs.

Because Medicare eligibility is tied to Social Security, a restriction in Social Security eligibility could produce additional savings by making those ineligible for Social Security also ineligible for Medicare. The amount of additional savings in Medicare would depend on how Social Security eligibility was restricted, however. Increasing the age of retirement above age 65 would also restrict eligibility for Medicare because it currently depends on being both over age 65 and entitled to Social Security benefits. The CBO estimates that about 15 percent of Social Security recipients would be eliminated and would also lose Medicare, but because they would be younger and healthier than the average Medicare beneficiary, their use of health-care services are assumed to cost roughly half as much. Thus, the additional reduction in Medicare spending is estimated to be about 7 percent of reduced spending in Social Security.

Between 5 and 15 percent of the eliminated Medicare recipients would become newly eligible for Medicaid, producing an offsetting increase of roughly 1 percent for each dollar cut. Because of matching federal grants, the federal government would pay 54 percent of the increase and the state and local governments 46 percent.

Some of those eliminated from Social Security would become eligible for SSI, causing a 6 percent offsetting increase for each dollar cut from Social Security. (CBO assumes this would be the same as in the case of an across-the-board benefit cut.) Again, about 94 percent of the increased SSI spending would be paid for by the federal government and about 6 percent by state governments.

Both food stamps and housing assistance programs would contribute small offsetting increases in spending--about 1 percent each for every dollar cut from Social Security. Both these offsetting increases in outlays would be federal.

As a result of restricted Social Security eligibility, SSI would have the largest increase in its outlays of the five interacting programs--20 percent. Outlays for other programs would

increase by smaller amounts: 1 percent for Medicaid, 2 percent for food stamps, and 3 percent for housing assistance. On the other hand, Medicare spending would decrease about 4 percent.

Effects on Individual Households. Households that would no longer be eligible for Social Security would face possible loss of health benefits with a substantial benefit value--averaging roughly $3,000 annually.[10] Some 5 to 15 percent of these households would be eligible for Medicaid, which would provide them with a similar package of medical benefits.[11]

Most newly ineligible Social Security households would be unable to meet the income and asset tests of SSI and so would receive no offsetting increase in other cash assistance. Roughly 9 percent of the newly ineligible households who were already SSI participants would face little change in their cash or health benefits. SSI payments would increase to offset most or all of the loss of Social Security benefits; Medicaid coverage would provide an approximate health-care equivalent for Medicare.

Food stamps and housing assistance programs would partially offset the lost Social Security benefits for a few--about 5 percent--of the eliminated households.[12] For them, food stamps would offset about 28 percent of the Social Security loss. Similarly, those households that could meet the stringent requirements and be placed in the limited housing assistance programs would have their rent reduced, partially offsetting the decline in income.

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10. Because of the loss of Medicare, some people might continue to work to retain employment-related health benefits. Such responses by recipients have been omitted from these estimates. Continued employment could be facilitated by the 1978 amendments to the Age Discrimination in Employment Act, which increased the minimum allowable age of mandatory retirement from 65 to 70.

11. Medicaid covers more services than Medicare--for example, long-term care and, in some states, dentistry and prescription drugs. On the other hand, Medicaid pays physicians less in many states, so access to care is sometimes reduced for Medicaid recipients.

12. Actually, 8 percent of Social Security households receive food stamps, but those who also receive SSI would have no change in their cash income and, therefore, no change in food stamps.

Unemployment Insurance

As in the case of an across-the-board reduction in unemployment benefits, the limited participation of UI households in other programs would reduce interactions under the restricted eligibility option.

Effects on Government Spending. The only program that would interact significantly with UI because of restricted eligibility would be food stamps which would increase to offset about 3 cents of each dollar in reduced outlays for unemployment insurance (see Table 9).[13]

The offsetting increase in food stamp spending would reduce the net savings from 20 to 19 percent (see Table 9). Both the savings from cutting UI and the offset by food stamps would appear in the federal budget; state budgets would not be affected. Benefit costs for food stamps would increase about 1 percent, depending on the unemployment rate.

Effects on Individual Households. For households made ineligible for unemployment insurance, food stamps would be the primary replacement program. Depending on the unemployment rate, 6 to 9 percent of these households would receive enough food stamps to offset about one-third of their lost unemployment benefits.

CURRENT PROPOSALS

This section describes several current proposals to reduce spending in AFDC and Social Security that would have significant secondary effects on the budget. The Congress is giving little attention to further cuts in unemployment insurance because of last year's reductions combined with the current recession.

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13. The data used to derive the estimates in this report do not accurately distinguish between whether there would be complete overlap of benefits or whether benefits for other programs would start after unemployment insurance ended. The estimates given may, therefore, overstate the overlap and consequently the size of the interactions.

TABLE 9. ESTIMATED BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN UNEMPLOYMENT INSURANCE OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Unemployment Insurance (In cents)	Net Cut as Percent of Previous Unemployment Insurance Outlays, Including Offsets
Food Stamps	1	3	19
Free/Reduced Price Lunch[a]	0	0	20[b]
Overall Effects, All Levels of Government[c]		3	19
Effect on federal budget		3	19
Effect on state and local budgets		0	0

SOURCE: CBO estimates.

a. National School Lunch Program providing free or reduced-price school lunch.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. The effects on different levels of government are not additive, but must be computed separately.

Aid to Families with Dependent Children (AFDC)

The Administration has proposed changes in AFDC that it estimates would reduce spending by $1.2 billion, or about 17 percent, in fiscal year 1983. Almost half the savings would be achieved through direct reductions in benefits, one-fifth through

strengthening work requirements, and over one-third through shifting more costs to the states.

The Administration's AFDC proposals that would directly reduce benefits would also produce significant offsets in the food stamp, housing assistance, and Medicaid programs, as discussed earlier in this chapter. Extending the definition of countable income to include part of the income of unrelated adults living with the family, for example, would directly reduce AFDC benefits of affected families, thereby increasing food stamp benefits for those that participate in both programs by one-third of the amount of the AFDC cut. Similarly, as AFDC benefits fall, the rent paid by those also receiving housing assistance would drop by 25 to 30 percent of the benefit decline, with the rent decrease being made up by the federal government. The net federal offset from reduced AFDC benefits (including additional savings in Medicaid because some AFDC households would lose eligibility) would be roughly 55 percent.

Federal savings from proposals to strengthen work requirements would be offset by about 5 percent--an amount similar to that found for the eligibility cuts discussed earlier in this chapter. The savings would result mainly through discouragement or deterrent effects. Current AFDC recipients would tend to participate for shorter periods (possibly by getting a job sooner than otherwise) and some eligible families would be deterred from applying for AFDC benefits at all. Some households that lost their eligibility for AFDC would also lose Medicaid benefits, reducing spending for that program, but expenditures for both food stamps and housing assistance programs would increase.

Beyond increased AFDC spending from cost shifting to the states, the most important changes in state outlays resulting from these proposals would be the decrease in Medicaid expenditures. States would not pay any part of increased outlays for food stamps and housing assistance programs.

Social Security

Senators Domenici and Hollings, the Chairman and ranking minority member of the Senate Budget Committee, have independently proposed changes in cost-of-living adjustments (COLAs) for indexed entitlement programs. One proposal would eliminate the first COLA

on or after July 1, 1982 and then reduce later ones three percentage points from what they would have been under current policy.[14]

Generally, the analysis of the across-the-board benefit reduction discussed earlier in this chapter would apply to this proposal. Federal spending for food stamps and housing assistance programs would increase, compared to what it would have been otherwise, reducing by an estimated 2 percent the net federal budgetary savings from the proposal. Spending by states for SSI would decrease in those states providing supplementary SSI payments.

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14. To set the October 1, 1982 basic food stamp allotment for fiscal year 1983, the proposal would use the value of the Thrifty Food Plan as of June 1981 ($244 per month for a four-person family) instead of the June 1982 value ($259 per month).

APPENDIXES

APPENDIX A. PROGRAMS PROVIDING BENEFITS TO INDVIDUALS

Since at least the 1930s, federal, state, and local governments have developed a wide range of programs to help individuals and families. Over the last 50 years, these programs, which provide cash and in-kind benefits, have grown so much that at least one-half of all U.S. households now receive benefits from one or more of them. The programs were developed individually, in response to changing circumstances and priorities, and evolved by modifying or adding functions to meet these new conditions. The resulting current system, conventionally divided into social insurance and welfare categories, is characterized by many programs structured to meet multiple goals with considerable functional overlap. The larger programs analyzed in this report are described below and summarized in Table A-1.

SOCIAL INSURANCE PROGRAMS

Social insurance programs provide benefits to persons (and their families) who customarily have contributed to the program's support, usually through designated taxes, and who have reduced earning ability, for example, the aged, unemployed, or disabled.[1] Generally, benefits are paid without regard to the level of income or wealth of the recipient, that is, in most cases, there is no means test. In 1982, $301 billion will be spent on federal social insurance programs which is 82 percent of all expenditures for programs providing benefits to individuals and 41 percent of all federal outlays.

The social insurance system includes Social Security (Old Age, Survivors, and Disability Insurance, or OASDI), railroad retirement, government employee pensions, federal/state unemployment insurance, veterans' compensation, disabled coal miners' benefits, Medicare, and some postsecondary education programs.

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1. Some social insurance programs, such as unemployment insurance, veterans' compensation, military retirement, and disabled coal miners' benefits, do not involve direct recipients' contributions, but can be viewed as a form of deferred compensation.

TABLE A-1. OVERVIEW OF THE MAJOR PROGRAMS PROVIDING BENEFITS TO INDIVIDUALS, FISCAL YEAR 1981

Program	Targeted Population	Benefits	Number of Participants, Monthly Average (In millions)	Federal Cost (In billions of dollars)	State and Local Cost (In billions of dollars)
Social Security (Old Age, Survivors, and Disabled Insurance or OASDI)	Retired and disabled workers, survivors, and dependents	Pension averages $384 per month for a retired worker	36	139.6	none
Unemployment Insurance (UI)	Unemployed workers	Varies by state, up to half of prior wages up to maximum amount; averages $102 per week	3.0[a]	20.0	b
Medicare	Elderly and disabled persons	Reimbursement for hospital and physician services	28	42.5	none
Aid to Families with Dependent Children (AFDC)	Low-income, single-parent families with dependent children[c]	Varies by state; median maximum payment is 50 percent of poverty threshold	3.8	8.5	7.2

(Continued)

TABLE A-1. (Continued)

Program	Targeted Population	Benefits	Number of Participants, Monthly Average (In millions)	Federal Cost (In billions of dollars)	State and Local Cost (In billions of dollars)
Supplemental Security Income (SSI)	Aged, blind, and disabled persons	Federal guarantee of $284 for single person and $426 for couple, plus state supplements in 41 states	4.1	7.2	2.4
Food Stamps	Low-income families	$233 per month for 4-person family with no income	8	11.3	d
Medicaid	Low-income families who qualify for AFDC or SSI[e]	Reimbursement to providers for medical services	22[f]	17.1	13.3
Child Nutrition Programs	Children, mainly from lower-income families	Subsidized meals and food	31	4.5	2.7
Housing Assistance Programs	Low-income families	Reduce cost of shelter to 25 to 30 percent of income[g]	3.3	6.7	none

(Continued)

TABLE A-1. (Continued)

a. This is the weekly average; over the year about 10 million people receive unemployment compensation.

b. All funds for UI are included in the federal budget in the Unemployment Trust Fund, although about 80 percent represent benefit payments made under state programs and paid for by state payroll taxes on employers.

c. Two-parent families qualify in about half the states if the principal wage earner is unemployed.

d. States pay roughly half of administrative expenses.

e. Some states also provide Medicaid benefits for the medically needy--generally, people with large medical expenses who would qualify for AFDC or SSI except for their incomes.

f. Persons who received Medicaid benefits during 1981.

g. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) requires an increase from 25 percent to 30 percent, phased in over several years.

Social Security

Social Security, the largest income-transfer program, provided benefits costing almost $140 billion to about 36 million beneficiaries in fiscal year 1981.[2] The program is designed to replace partially the earnings lost when a worker retires or becomes disabled and to pay benefits to family survivors when a worker or retiree dies. It is administered solely by the federal government and financed by a payroll tax paid half by the employee and half by the employer.[3] The tax rate for the self-employed is about three-quarters of the combined employee-employer tax rate.

All persons are eligible for benefits if they meet the program's requirements for disability or for age and retirement, and if they have contributed to the program through the payroll tax for a specified minimum length of time. Most survivors and dependents of disabled or retired workers are also eligible. Roughly 95 percent of all individuals reaching age 65 are eligible to receive Social Security benefits, based either on their own earnings or on those of a past or present spouse. In November 1981, the average monthly benefit received by a retired worker was $385.51; by a disabled worker, $413.27; by a widow or widower, $345.82; and by a child of a deceased worker, $270.89. Benefits are automatically increased annually to reflect changes in the cost of living.

The Social Security program was conceived as a work-related retirement program, but benefits partially reflect presumed need as well as past earnings. The benefit formula is progressive and results in payments which are greater relative to average lifetime earnings for low-wage workers than they are for high-wage workers. Payments of dependents' benefits also lessens the relationship of benefits to earnings.

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2. For a more detailed description of Social Security, see Congressional Budget Office, Paying for Social Security: Funding Options for the Near Term (February 1981).

3. Some argue that the employer's share is, in fact, partly paid by the employee through lowered wages.

Unemplomeht Insurance (UI)

Financed by federal and state payroll taxes levied on employers,[4] the unemployment insurance (UI) program provides cash benefits during limited periods of unemployment. It is administered primarily by the states according to federal guidelines. Under the regular program, there is substantial variation among the states in benefit levels and eligibility criteria.

Federal taxes collected for unemployment insurance can be used for administration, benefits, and loans to states, while state tax recipts can be used only to pay benefits. These taxes are deposited in, and benefits are paid from, separate state accounts in the Unemployment Trust Fund of the U.S. Treasury and thus appear in the unified federal budget.

Outlays and the number of beneficiaries depend crucially on the condition of the economy. Because of high unemployment in calendar year 1975, outlays reached $16.4 billion; in fiscal year 1980, outlays were $17.5 billion. Outlays in fiscal year 1982 are estimated to be $26 billion.

The regular state programs generally limit benefits to a 26-week period, although some states pay benefits for longer periods. In addition, state and federal governments provide for increased duration of benefit payments during periods of high unemployment. Since the early 1960s, various additional benefits have been provided temporarily under special circumstances.

Benefits under the regular UI program are about half of a worker's wage up to certain limits; the length of time a person can receive these benefits generally increases with the length of work experience or earnings. Thirteen states supplement the UI benefit check for an unemployed family head with a dependency allowance for a spouse or children.

Currently, about 97 percent of all wage and salary workers are covered by UI, but because of the program's work experience requirements, new entrants and re-entrants to the labor force are generally excluded from receiving benefits. In addition, benefits are generally withheld from those who voluntarily quit their

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4. Three states require employee contributions.

jobs. About 28 percent of the unemployed received UI benefits in 1980.[5]

Medicare

The Medicare program, enacted in 1965, provides hospital insurance (Medicare Part A) for about 29 million persons eligible for Social Security and railroad retirement who are 65 and older or who are disabled. Medicare also covers chronic renal disease patients who have Social Security coverage either as a worker, spouse, or dependent. Disabled persons during a two-year waiting period, early retirees, and survivors are not eligible for Medicare.

Medicare Part B, the Supplementary Medical Insurance program, is an optional supplement available to this same population and to all those 65 years and older. After a $75 per year deductible, it pays 80 percent of the cost of physician's and other medical services.

Part A is financed by a payroll tax paid half by employees and half by employers, while Part B is financed by premiums paid by recipients and appropriations from general revenues. In fiscal year 1981, Medicare spent about $42.5 billion or over $1,400 per eligible person.

Other Social Insurance Programs

A number of other government programs provide benefits to particular categories of people based on their past work histories or work-related disabilities, but they are not included in the analyses in this report. Among these programs are federal, state, and local government retirement programs, which often supplement rather than supplant Social Security benefits. Federal government pensions provided benefits worth almost $18 billion in fiscal year 1981. Also, every state has adopted worker's compensation programs to provide cash benefits to employees whose disabilities are work-related. Coverage, eligibility rules, and basic benefits vary widely in these state-run programs. The Black Lung program,

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5. Richard T. Curtin, et al., Coping with Unemployment Among American Households (The University of Michigan, Survey Research Center, May 1981).

an occupation-related program for coal miners, provided $1.8 billion in cash benefits to nearly 480,000 miners and their dependents in 1981. Also, the 30 million veterans and their survivors and dependents were eligible for benefits from retirement, health, education, employment, and housing programs costing about $23 billion in 1981.

Besides these direct transfers, tax expenditures related to retirement, disability, unemployment, and medical costs contribute indirectly to the social insurance system.[6] For example, the elderly are allowed an extra income tax exemption and most unemployed workers pay no tax on their unemployment compensation benefits.

WELFARE SYSTEM

Unlike the social insurance system, the welfare system bases benefits on tests of need. Because eligibility usually depends on a family's composition, current income, and its ownership of assets, but not on any prior tax payments or contributions, these programs are called "means tested." In fiscal year 1982, welfare programs will account for $65 billion, or about 18 percent, of all federal spending for benefits to individuals and 9 percent of total federal outlays.

The major cash programs in this category are Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI). In-kind assistance to the poor is provided by the food stamp, child nutrition, and Medicaid programs, as well as by several housing assistance programs.

Aid to Families with Dependent Children (AFDC)

The AFDC program is a grant-in-aid program that assists needy dependent children living with a single parent, relative, or (by

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6. Tax expenditures are revenue losses that result from provisions of the federal tax code that give special or selective tax relief to certain groups of taxpayers. Like federal spending programs, tax expenditures channel resources from some sectors of the economy to others. For more details, see Congressional Budget Office, Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1982-1986 (September 1981).

court order) in foster homes or private nonprofit child-care institutions. Almost all of the single-parent families are headed by women. In roughly half the states, two-parent families with an unemployed principal wage earner are also eligible if they meet additional requirements. About 3.8 million families participated in the AFDC program each month during fiscal year 1981, at an annual federal cost of $8.5 billion and an annual state cost of $7.2 billion.

Because of their low incomes and assets, families receiving AFDC benefits are also eligible for in-kind transfers such as Medicaid, food stamps, and housing assistance. States have the option of taking account of the value of food stamps and housing assistance benefits in computing AFDC payments.

The federal government finances AFDC through matching grants to the states, with each state's matching rate based on its per capita income. In 1981, the average federal share was 54 percent and ranged from 50 percent--the legal floor--to 77 percent.

Eligibility standards and payment levels vary widely among states, which are required to administer and pay part of the cost of the program. Federal law requires each state to establish a basic "needs standard" and limits eligibility to families with incomes less than 150 percent of that standard.

Benefit amounts are based on a state's maximum payment, often less than the needs standard. Because over half the states do not pay the full amount of the needs standard, it is possible to be eligible for aid but receive no payment. In July 1981, the state median maximum payment for a female-headed family of four with no income was about 50 percent of the poverty threshold. In the continental United States, maximum payments as a percent of the poverty threshold ranged from a low of 17 percent in Mississippi to a high of 85 percent in California.

The actual AFDC grant is the maximum payment for that family size reduced dollar-for-dollar for other income, after deductions for child-care and work expenses.[7] Other income includes earnings and cash benefits from other programs.

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7. Earners can deduct expenses for the child-care, up to $160 per child per month, and a standardized $75 for work expense. In addition, for the first four months of participation, a work incentive deduction is allowed that equals $30 plus one-third of earnings remaining after other deductions.

Supplemental Security Income (SSI)

The SSI program provides cash assistance, based on need, to persons who are aged, blind, or disabled. About 4.1 million persons participated in the SSI program each month in fiscal year 1981 with annual outlays about $2.4 million. Many SSI recipients are not eligible for Social Security benefits, generally because they do not meet Social Security's requirements for labor force experience. Over 60 percent of SSI beneficiary households receive Social Security benefits; about 45 percent receive food stamps. Most SSI recipients are automatically eligible for Medicaid.[8] SSI benefits are reduced dollar-for-dollar for other cash benefits over $20 per month.

Basic benefits are paid by the federal government, and 41 states provide a supplementary state payment. For the year beginning July 1, 1982, single SSI recipients receive at least the federal guarantee of $284.30 a month, which is 73 percent of the poverty standard, while SSI couples receive at least $426.40 a month, or 82 percent of the poverty standard. Federal SSI benefits are automatically adjusted to reflect increases in consumer prices. In states that pay them, supplementary payments can raise monthly benefits to as high as California's $439 for single individuals and $815 for couples.

Food Stamp Program

The Food Stamp Program provides needy households with a monthly allotment of coupons that can be used to purchase food.[9] Eligibility standards and benefit levels are uniform throughout the nation, making food stamps the only program for which all low-income persons qualify, regardless of other characteristics such as family composition. The federal government bears the entire cost of the benefits and shares about equally the administrative costs with the states, which are responsible for the program's administration.

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8. About one-third of the states have been permitted to apply somewhat more stringent Medicaid eligibility criteria to their SSI recipients than other states. Many refer to these as "209(b) states," reflecting the section of the Social Security amendments of 1972 which provided this option.

9. For a more detailed description of food stamps, see Congressional Budget Office, The Food Stamp Program: Income or Food Supplementation?, Budget Issue Paper (January 1977).

In fiscal year 1982, the basic benefit--called the "thrifty food plan"--is $233 per month for a family of four with no income, or about one-third of the poverty threshold. This benefit is reduced 30 cents for each dollar of income, net of a few deductions. During fiscal year 1981, monthly participation averaged about 8 million households at a total federal cost of $11.3 billion for the year.

Child Nutrition Programs

These programs provide indirect subsidies to both needy and nonneedy children through food assistance programs, such as the school lunch program; the school breakfast program; the summer feeding program; the child care feeding program; the special milk program; and the special supplemental food program for women, infants, and children (WIC).[10] Costs are shared among sponsors of the programs, with a federal contribution of about 60 percent. In fiscal year 1981, the federal cost was $4.5 billion and the state cost was almost $3 billion.

Federal payments to states, schools, and other sponsors of the various feeding programs are usually based on the family incomes of the participating children. In places that participate in the programs, children are eligible to receive free lunches, suppers, and breakfasts if their family incomes are below 130 percent of the poverty level. They may receive meals at reduced prices--about half price--if their family incomes are between 130 and 185 percent of the poverty level. Children from families with incomes above these levels also have breakfast, lunch, and milk costs reduced by more limited amounts in participating schools.

The National School Lunch Program, which accounts for roughly two-thirds of child nutrition costs, served about 26 million children each day at a federal cost of almost $3 billion for fiscal year 1981.

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10. For a more detailed description of child nutrition programs see Congressional Budget Office, Feeding Children: Federal Child Nutrition Policies in the 1980s, Budget Issue Paper (May 1980).

Medicaid

The Grants to States for Medical Assistance Program (Medicaid), enacted in 1965, finances medical care for the needy.[11] State agencies administer Medicaid through grants from the Health Care Financing Administration, while financial responsibility is shared by federal, state, and sometimes local governments. There is substantial variation from state to state, both in the categories of persons covered and in the benefits to which they are entitled.[12]

By federal statute, all AFDC and virtually all SSI recipients are eligible for Medicaid. About 30 states also cover the medically indigent: persons with large medical bills who meet all the other requirements of AFDC or SSI except for their incomes. About half of Medicaid recipients are under age 21; one-sixth are over 65. Large segments of the poor population--poor childless couples, single persons under age 65, the working poor, and intact families--do not qualify for Medicaid, however, because they do not qualify for AFDC or SSI.

In fiscal year 1981, Medicaid paid for medical services for over 22 million persons at a federal cost of $17 billion. This is an average of $760 per recipient, but the average varies widely by state and type of recipient. In fiscal year 1980, the most recent year for which data are available, the average for AFDC recipients in Mississippi was $231, while in New York it was $364. The difference between the average Medicaid costs for AFDC recipients results from differences in benefits and the price of medical care in the two states. The comparable figures for all Medicaid recipients was $533 in Mississippi, and $993 in New York. The higher figure is caused principally by the inclusion of more elderly and disabled Medicaid recipients.

Housing Assistance

Federal housing assistance programs administered by the Department of Housing and Urban Development (HUD) reduced shelter

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11. For a more detailed description of Medicaid, see Congressional Budget Office, Medicaid: Choices for 1982 and Beyond, Budget Issue Paper (June 1981).

12. When Arizona's demonstration project begins in October 1982, all states will have at least a minimal Medicaid program.

costs for approximately 3.3 million low-income households in 1981.[13] More than 2.5 million of these families were assisted under the Section 8 and public housing rental assistance programs. Under each of these programs, assisted households contribute a fixed proportion of their incomes toward their own housing, and the federal government makes up the difference between that amount and the full costs of the dwellings they occupy. As a result of the 1981 reconciliation act, the rent for families in Section 8 and public housing will rise from 25 percent to 30 percent of net income.[14]

While the other transfer programs discussed above are generally entitlements--that is, anyone qualifying and applying for the program must, by law, be provided with benefits--participation in the housing assistance programs is limited by the amount appropriated for the programs. Rental assistance commitments expected to be outstanding as of the end of fiscal year 1982 will be sufficient to serve about 30 percent of the target group of those programs. Federal costs for all major HUD housing assistance programs totaled about $6.7 billion in fiscal year 1981.

Other Welfare Programs

A variety of government assistance programs are not included in this report, but provide some or all of their benefits to lower-income people. They include:

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13. For a more complete description of these programs, see Congressional Budget Office, The Long-Term Costs of Lower-Income Housing Assistance Programs, Budget Issue Paper (March 1979).

14. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) set the rent for Section 8 and public housing tenants at the highest of three figures--30 percent of the family's monthly adjusted income, 10 percent of the family's monthly gross income, or that part of a family's welfare payments specifically designated to meet housing costs in those states that adjust welfare to cover housing. Because these are higher than prior rent charges, they are to be increased over several years, but the exact phase-in provisions have not yet been determined.

- Pensions, health services, housing, and educational assistance for needy veterans (including, in some cases, dependents and survivors of such veterans).

- Emergency cash and in-kind assistance to families with emergency needs for a single month or as a result of a natural disaster.

- Educational assistance, such as Pell grants, and guaranteed student loans.

- Assistance to special groups, such as refugees and Indians.

- Social services, such as legal and other services that are provided under Title XX of the Social Security Act through grants to states.

- Energy assistance.

- Employment programs, such as the Work Incentive (WIN) program, job training, and employment services.

- Tax benefits, such as the earned income tax credit, which supplements the earnings of low-income families with children by providing a refundable tax credit.

APPENDIX B. DATA SOURCES AND METHODOLOGY FOR ESTIMATES

This appendix discusses the estimates presented in this paper, including their data sources, the methods used to derive them, their applicability to years after 1983, and the factors affecting their size.

DATA SOURCES

The three main data sources used in the analyses are:

- The March 1981 Current Population Survey (CPS);
- Program data for food stamps, Aid to Families with Dependent Children (AFDC), Social Security, and Supplemental Security Income (SSI); and
- CBO baselines and economic assumptions presented in Baseline Budget Projections for Fiscal Years 1983-1987 (February 1982).

The March 1981 CPS provided the basic rates of participation in more than one program. These rates were compared to those from other data sources and adjusted when appropriate. The other data sources were the 1979 Test Panel of the Income Survey Development Program (ISDP)/Survey of Income and Program Participation (SIPP), the March 1980 CPS, and data from individual programs.

After resolving, where feasible, inconsistencies resulting from differences in accounting periods and filing units and scheduled changes in program rules and benefits, the March 1981 CPS participation rates were quite consistent with information from these other data sources. For example, the March 1980 CPS indicated that 10.7 percent of census households receiving food stamps sometime during calendar year 1979 also received unemployment compensation during that year. In comparison, Wave I of the 1979 Test Panel of the ISDP indicated that 12.1 percent of food stamp households received unemployment compensation during the three-month reference period in early calendar year 1979. The 1979 Test Panel rate is 13 percent higher than the CPS, a difference primarily reflecting less income underreporting in the

1979 Test Panel. Other comparisons generally yielded similar or smaller differences, after consistency adjustments were made.

ESTIMATION METHODS

The three types of estimates contained in Tables 4 through 9 in Chapter III are discussed in this section:

- Offsets;
- Net budget effects; and
- Percentage changes in spending by the interacting program.

The effects on federal versus state and local government spending were computed from the above estimates using the appropriate cost-sharing rates for the programs.

Offsets

Each offset estimate required three items, projected for fiscal year 1983:

- The proportion of households in the reduced program that also participate in the interacting program;
- The rate at which benefits are reduced for other income for the participants in both programs; and
- The adjustment factor reflecting any difference in the average benefit of participants in both programs compared with all program recipients.

To demonstrate how these items were incorporated into the estimate, the interaction between AFDC and food stamps resulting from an across-the-board benefit reduction in the former program is discussed in detail.

First, an estimate of participation in the Food Stamp Program by AFDC households was developed. Such estimates range from 70 to 80 percent, depending on the data source. More estimates cluster in the low 70s, but the trend over time is upward, so a rate of 75 percent was used as the estimate for 1983. This rate excludes those participants in both programs that receive benefits from a

third, such as SSI, that would offset changes in AFDC benefits. Such offsets would leave total cash assistance unchanged and, therefore, food stamp benefits would remain unchanged. This adjustment is larger for other interactions, such as between Social Security and food stamps, since a larger proportion of Social Security recipients also receive SSI benefits than do AFDC recipients.

Second, based on a recent survey of food stamp recipients, for each dollar decline in AFDC payments the average food stamp household is projected to receive 32 cents more in food stamps, depending on the income and shelter deduction of the household. (For comparison, the rate for elderly households is 28 cents; it is lower because about one-fifth of such households receive the minimum benefit, which would not be affected by a change in income.)

Combining these two numbers yields an initial estimate of the offset; that is, when AFDC benefits decline by one dollar, food stamps increase 32 cents for the 75 percent of AFDC households participating in both programs. For the 25 percent not participating in the Food Stamp Program, no increase would occur, so the food stamp offset would be 24 cents (0.75 x 32 = 24) for all AFDC households.

Finally, because the average AFDC benefits for those who receive food stamps do not differ significantly from the average benefits of the entire AFDC caseload, no adjustment is made to account for a differential effect of the AFDC benefit reduction. In contrast, such an adjustment is necessary for the offset by SSI of a reduction in Social Security benefits because the average Social Security recipient also getting SSI receives about 67 percent of the benefits of the average Social Security recipient.

Net Budget Effects

The net reduction in budgetary outlays, expressed as a percent, is simply the percentage size of the cut (20 percent in this paper) minus the percent of the program savings that is offset by other programs. Using the previous example, a cutback in AFDC outlays achieved by a 20 percent across-the-board benefit reduction would cause a 24 cent increase in food stamps for each dollar cut, or a 4.8 percent offset to the 20 percent cut (0.20 x 24 = 4.8). Thus, the net cut is 20.0 minus 4.8 or 15.2 percent for the food stamp offset. Adding the offsets of other programs yields the overall, or net, budget effect.

Effects on Interacting Programs

The percentage change in spending by each interacting program is the estimated dollar size of the offset divided by the estimate of that program's costs with the result expressed as a percent. To continue the same example, the CBO's current policy baselines for AFDC and food stamps are $15,331 million[1] and $12,543 million, respectively, in fiscal year 1983. The estimated offset by food stamps would be $736 million ($15,331 x 0.20 x 0.24 = $736); therefore, the percentage increase in food stamp expenditures would be 5.9 percent ($736/$12,543 = 0.059).

Federal Versus State and Local Spending. Using cost-sharing (matching) rates between the federal and state governments, the effect on different levels of government can be estimated. For the AFDC/food stamp example, the federal government pays 54.1 percent of total AFDC costs and 100 percent of food stamp costs. Considering only these two programs, for each dollar cut from total AFDC benefits, the federal government would spend 54.1 cents less in AFDC, but 24 cents more for food stamps (100 percent of 24 cents), which is an offset in federal spending of 44.4 percent (24/54.1 = 0.444). Of course, the overall effect on a given level of government would include offsets in all programs affected by the cut being analyzed.

APPLICABILITY OF ESTIMATES TO LATER YEARS

The estimates presented in this study are all for fiscal year 1983 and, with one exception, would be similar in size for later years, with differences usually less than a few percentage points. The exception is unemployment insurance (UI), for which estimates depend crucially on the state of the economy and may vary in different years. For example, the offset by food stamps that would occur with an across-the-board reduction in unemployment compensation in 1983 is about 30 percent higher than it would have been in 1979--about 3.0 cents versus 2.3 cents for each dollar reduction in UI--although the difference is still less than one percentage point in this case.

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1. The $15,331 million figure is the combined federal, state, and local spending for AFDC; $8,294 million (54.1 percent) is the federal share.

The differences in the estimates of the outlay effects for interacting programs for recent years are usually less than a few percentage points, as was the case for the offset effects. The outlay effect on each interacting program depends on the ratio of spending for the two programs involved. Therefore, if spending for the changed and interacting programs is changing slowly and steadily, then their ratio is easy to project and the results will change slowly. In recent years, this has been the case for most programs analyzed in this report. Although many programs were cut in last year's budget actions, their ratios have remained relatively constant.

FACTORS AFFECTING THE SIZE OF ESTIMATES

Four main factors affect the size of the offset estimates and would be important in estimating the effects of proposals other than the hypothetical ones used in this study. They are:

- The size of the reduction;
- The distribution of the benefit changes between those who do and do not participate in other programs;
- The number of programs explicitly changed; and
- The extent of changes in behavior of those affected by the cut.

The size of the program reduction is directly related to the offsets in most cases. For some recipients, though, the offsets may be affected by break-even points, minimum benefit guarantees, or other program rules that constrain benefit amounts. Because one- or two-person households eligible for food stamps receive a minimum of $10 in stamps monthly, benefit changes in other programs may not alter the amount of food stamps they receive, thus lowering the size of the overall offset.

The distribution of the cut--who is affected and how--also directly affects the estimates. If those affected by a program change do not participate in other programs, then no interactions occur. For example, lowering the income eligibility standards for AFDC may produce a much lower increase in spending by housing assistance programs, since higher-income AFDC households participate less frequently in housing assistance programs than does the average AFDC household.

In general, changes to more than one program would produce offsets that are additive. In some cases, however, changes can be designed to reduce the impact of the interactions by simultaneously modifying all programs involved so that the offsets would cancel each other. In other cases, such as omitting cost-of-living adjustments in all programs that have them, offsets would be small because many indexed programs are indexed at the same time and in similiar ways.

Finally, program changes may induce significant changes in recipients' behavior that, in turn, would affect the size of offsets. This is especially important if the change in benefits is large or is concentrated on one group of recipients so that it reduces substantially their total disposable income. Recently enacted reductions in work incentives in AFDC, for example, may cause declines in work effort leading to increased outlays for AFDC. Such behavioral responses would occur over a period of time and would cause, ultimately, offsets in other programs.